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Portfolio Management

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## Brief “War” A Mere Blip in This Bull Market

After ten years, the economic expansion in the United States continues. Unemployment remains extremely low, and the holiday shopping season showed that the American consumer is in the mood to spend. And the stock market appears to “want” to go higher.

Why do we say it seems to want to go higher? Look at what happened earlier this month:

President Trump gave an order that ended with the assassination of Qassem Soleimani, the senior General of Iran’s Quds Force, a man that many believe to be behind countless attacks on American forces during the past decade.

Iran immediately pledged revenge against America, and investors took them at their word. Fearing the beginnings of a war that would bog down the economy, stocks plummeted the next day, as investors took the proceeds to buy gold and U.S. Treasury bonds, traditional “safe havens” during periods of global uncertainty.

A couple of days later, Iran took its “revenge,” firing a few ineffectual missiles at a U.S. military compound in Iraq, doing minimal damage and killing no one.\*

That was it. It was over. They basically lobbed obligatory missiles at a U.S. compound so that they could brag about it to the Iranian populace. No war. No nothing.

Cooler heads in Iran prevailed, realizing that getting into a “knock-down-drag-out” battle with the United States was probably going to end with the Iranian military being “knocked down and dragged out.”

The stock market immediately resumed its upward path, while gold and Treasury bonds sold off. It was just that easy. With no international turmoil looming, this stock market just keeps heading higher.

*\*It should be noted that a few hours later the Iran military shot down a Boeing 737 Ukrainian passenger plane that had just taken off from Tehran, headed for Ukraine. The Iranian government has conceded responsibility for the strike and has pledged to punish those individuals responsible.*

And don’t forget, there is a presidential election in ten months, and it’s our guess that President Trump will not intentionally take any actions that would derail this economy. A strong economy with low unemployment, combined

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with a currently underwhelming group of Democratic hopefuls, will likely give Trump four more years.

Barring escalations in international conflict, the most significant looming headwind to the U.S. economy (and ultimately the stock market, which has been on an ascending yoyo for the past year) is the potential escalation of trade wars. It's been a while since we have heard anything about the United States and China playing chicken with tariffs, and the market has been on a pretty smooth ride northward since then.



Today, the Trump Administration is expected to sign a preliminary trade agreement with China. This is a first step in easing tensions that have boiled up between the two nations over the past two years. Under the agreement, China will meaningfully increase its purchase of U.S. farm goods and take additional actions (such as pledging not to devalue the yuan and to better protect American intellectual property). In exchange, the United States has agreed to greatly scale back tariffs on Chinese goods.

Trump said that this “phase one” deal is “pretty much all for the farmers.” Because, let’s face it, farmers vote.

The president mentioned that work would begin on a second phase of a trade deal, but nothing is expected until after the November presidential election, because at that point the U.S. will have better bargaining power. China said that any future negotiations will depend on how the phase-one deal is implemented.

But this is far from over. We expect more trade-war volatility, particularly as long as Trump is president. He’s the first president in a long time (ever?) to really hold China’s feet to the fire. And that’s because he can. We have the biggest, healthiest, strongest economy in the world.

The time to make the best deals is when you hold the best cards. And there is not any country that can compete with the U.S. today financially, economically, geographically, or militarily.

Throughout the past decade, it has been speculated that China will take over as the largest and strongest economic power in the world. Trust us, that ain’t gonna happen. Not even close. The Chinese experiment is more likely to collapse under a mountain of bad debt.

Stay tuned.

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